

Message Text

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FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC IMMEDIATE 5570

C O N F I D E N T I A L THE HAGUE 1612

LIMDIS

FROM AMBASSADOR GOULD TO ASST. SECY ENDERS

E.O. 11652: GDS

TAGS: EAIR, NL

SUBJ: CIVAIR

REF: HAGUE 1506

1. IN CONSEQUENCE OF PROLONGED SESSION WITH TRANSPORT MINISTER WESTERTEP MARCH 25 AND PREVIOUS MEETING WITH KLM PRESIDENT ORLANDINI, I HAVE RECEIVED INFORMAL ASSURANCE THAT A DEAL COULD BE CONCLUDED WITH THE DUTCH WHEREBY KLM SEATING CAPACITY WOULD BE REDUCED IN TWO STAGES TO 570,000. THE REDUCTION WOULD INITIALLY BE TO 600,000 AND THEN IN ABOUT THREE MONTHS, FOLLOWING RESHUFFLING OF AIRCRAFT, TO THE 570,000 FIGURE.

2. SUCH A REDUCTION, HOWEVER, WOULD BE CONDITIONED BY THE DUTCH ON U.S. AGREEMENT THAT KLM FREQUENCY BE SET AT 21, WHICH THEY ABSOLUTELY INSIST REPRESENTS THE VERY LOWEST FIGURE WHICH THEIR CABINET WILL APPROVE. WHILE IT IS CONCEIVABLE THAT THEY MIGHT BE DRIVEN DOWN TO 20, I DOUBT THE CHANCES OF DOING SO AND AM WILLING TO ACCEPT WESTERP'S STATEMENT THAT 21 IS INDEED THEIR BOTTOM LINE.

3. ASSUMING THEN, THAT WE CANNOT EXPECT GREATER CONCESSIONS
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FROM THE DUTCH AND BECAUSE 570,000 SEATS ARE SO CLOSE TO THE

SECRETARY'S PROPOSAL OF 540,000, I RECOMMEND CONSIDERATION BE GIVEN TO SETTLING THE MATTER ON THE OUTLINED BASIS: NAMELY, 21 FLIGHTS PER WEEK, 570,000 SEATS PER ANNUM, AND A TERM OF ONE YEAR. IN ADDITION TO JUSTIFICATIONS SET FORTH IN REFTEL URGING THE RECONCILIATION OF THE CIVAIR ISSUE ON GENERAL GROUNDS, THE FOLLOWING SPECIFIC ARGUMENTS SUPPORTIVE OF SUCH SETTLEMENT HAVE MERIT IN MY JUDGMENT.

4. THE ART OF THE POSSIBLE

WHILE THE PROPOSED DOES NOT SQUARE WITH WHAT WE HAVE BEEN DEMANDING, IT DOES AS A PRACTICAL MATTER REPRESENT VERY SUBSTANTIAL REDUCTIONS BY THE DUTCH FROM THEIR 1973 OFFERINGS OF 28 FLIGHTS PER WEEK AND 806,000 SEATS PER YEAR. FURTHERMORE, IT IS AVAILABLE, AND AVAILABLE WITHOUT THAT RANCO WHICH THE SECRETARY IN HIS LETTER SAID HE HOPED TO AVOID.

5. SOME UNWELCOME ALTERNATIVES.

NONE OF THE THREE ALTERNATIVES TO A NEGOTIATED SOLUTION APPEARS ATTRACTIVE. DENUNCIATION WOULD PERMIT KLM TO CONTINUE AT ITS PRESENT LEVELS OF OPERATION FOR A LEAST ONE YEAR, WITH NO ONE ABLE TO PREDICT THE TERMS WHICH THE NEW BILATERAL WOULD INCLUDE. ARBITRATION, WHICH THE UNITED STATES HAS STUDIOUSLY AVOIDED, WOULD BE TIME-CONSUMING AND EQUALLY UNPREDICTABLE TO PROCEDURE UNDER SECTION 213 WILL UNDOUBTEDLY FORCE THE DUTCH TO SEEK PROTECTION IN THE COURTS AND POSSIBLY SEE THEM INVOKE ARBITRATION AS WELL WITH EQUALLY UNFORSEEABLE CONSEQUENCES. CERTAINLY, ACCEPTING AN AGREEMENT NOW IS THE FASTEST WAY TO OBTAIN BENEFITS FOR THE UNITED STATES. THE THREE ALTERNATIVES OR COMBINATIONS THEREOF WILL PRODUCE ONLY DELAY OF AT LEAST ONE YEAR AND SPECULATIVE OUTCOMES WHICH COULD WELL PROVE LESS FAVORABLE THAN WHAT IS PRESENTLY AVAILABLE. MOREOVER, AND OF GREAT SIGNIFICANCE, IS THE FACT THAT ANY OF THE THREE ALTERNATIVES WOULD ADD TO THE FRICTION IN OUR POLITICAL RELATIONS AND WAKEN THE GON'S CONFIDENCE IN THE WILLINGNESS OF THE U.S. TO SOLVE THE PROBLEM ON A MUTUALLY SATISFACTORY BASIS.

6. ESTABLISHING NEW CEILING ZERO

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BY CONCLUDING AN AGREEMENT NOW AS TO FREQUENCY AND SEATS, WE WILL HAVE ESTABLISHED SUBSTANTIALLY LOWER POINTS OF DEPARTURE FOR FUTURE NEGOTIATIONS: NAMELY, STARTING AT 21 INSTEAD OF 28 FLIGHTS PER WEEK AND 570,000 SEATS INSTEAD OF 806,000.

7. LACK OF UNANIMITY

NOT ALL THE U.S. AVIATION COMMUNITY ARE ADAMANT ABOUT SQUEEZING

KLM. WE HAVE SPECIFICALLY BEEN APPROACHED BY GENERAL DYNAMICS AND UNITED AIRCRAFT URING THAT THE CIVAIR ISSUE BE RESOLVED AS QUICKLY AS POSSIBLE AND WITHOUT DAMAGE TO KLM ON THE GROUNDS THAT THE PENDENCY OF THE MATTER IMPANCTS UNFAVORABLY ON THEIR PROSPECTS FOR SELLING THE YF-16 TO THE DUTCH GOVERNMENT, WHICH IS UNDOUBTEDLY TRUE, MOREOVER, NOT EVEN ALL US CARRIERS ARE NECESSARILY BEHIND US. NATIONAL AIRLINES INDICATED LAST OCTOBER THAT IT DID ENDORSE THE US NEGOTIATING AND EXPRESSED THE WILLINGNESS FOR HEAD TO HEAD COMPETITION AGAINST KLM. FINALLY, WE DOUBT THAT IT IS IN THE INTERESTS OF BOEING OR DOUGLASN BOTH OF WHOM HAVE SOLD THE DUTCH SUBSTANTIAL NUMBERS OF AIRCRAFT, TO SEE KLM TURNED AGAINST THE US AIRCRAFT INDUSTRY IN GENERAL.

8. EQUITIES OF DUTCH POSITION

IT IS A FACT THAT KLM HAS BOUGHT A VERY SUBSTANTIAL NUMBER OF AMERICAN PLANES UPON THE ASSUMPTION THAT THE BILATERAL WAS VALID AND AND THAT THEY WOULD NEED THIS EQUIPMENT O HANDLE TRANSATLANTIC SCHEDULES WHICH HAD CAB AGREEMENT, ALBEIT GRUDGINGLY GIVEN. REGARDLESS OF HOW LITTLE THE DUTCH GAVE TO ACQUIRE THEIR LANDING RIGHTS AND SCHEDULES, EQUITY WOULD REQUIRE THAT THEY CAN RELY UPON THE AGREEMENT. WHILE THE DUTCH NOW RECOGNIZE THAT THE OVERALL ECONOMIC SITUATION IN AVIATION IS SERIOUS, AND FOR THIS REASON ARE WILLING TO VOLUNTARILY CONCEDE A SUBSTANTIAL PROTION OF THEIR FREQEUNCY AND SEATS WITH NO QUID PRO QUO--SINCE PANAM WOULD HAVE ABANDONED ITS FLIGHTS IN ANY EVENT--IT IS NOT REASONABLE TO EXPECT THEM TO YIELD SO MUCH OF THEIR TRANSATLANTIC ACTIVITY THAT THE EQUIPMENT WHICH THEY BOUGHT FROM AMERICAN TO SERVICE THE AMERICAN MARKET CANNOTBE PAID FOR FROM TRANSATLANTIC REVENUES.

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9. SHARING THE MARGIN-ASSUMIN THE VALIDTY OF THE PROPOSITION THAT THERE IS MARGINAL BENFIT OF SUBSTITUTION TO PANAM AT 19 OR EVEN 20 BUT NOT ABOVE, THERE MUST BE ADDED TO THE OTHER SIDE OF THE EQUATION THE LIKELIHOOD OF A DUTCH CONSUMER BOYCOTT OF PAN AM IF WE PUSH THE GON TOO FAR. PANAM IS ALREADY EXPERIENCING SOME CONSUMER RESISTANCE ALTHOUGH WE KNOW FOR A FACT THAT NO EFFORT HAS BEEN MADE TO MOUNT A CAMPAIGN AGAINST IT, BUT IT ALSO IS EVIDENT FROM THE MASSIVE PRO-KLM PROGRAM OUNTED PREVIOUSLY BY THE MEDIA THAT THERE IS PLENT OF SENTIMENT HERE THAT COULD BE ACTIVLEY TURNED AGAINST PANAM, AND TO PROSPECTS OF THIS OCCURING IF A SETTLEMENT IS NOT REACHED ARE MORE LIKELY THAN NOT.

10. TO SUMMARIZE, WHILE THE PROPSAL MAY NOT BE ALL WE DESIRE, ON BALANCE, IT SEEMS TO ME THE BETTER PART OF DIPLOMACY TO TAKE NOW WHAT WE CAN FREELY OBTAIN FROM THE DUTCH AND PUT

THIS AGGRAVATING MATTER BEHIND US ON THE PRESENT. WE NEED THE
GOODWILL OF THE GON AND THE DUTCH PUBLIC FOR MORE THAN WE
NEED ONE ADDITIONAL FREQUENCY-WHICH WE PROBABLY CANNOT COMPE
IN ANY EVENT-FOR DUTHC SUPPORT CAN BE OF GREAT SIGNFICANCE
IN MANY MATTERS SUCH
AS THE IEA, THE FY-16 SELECTION, AND NATO-
WHICH ARE OF PRIMARY IMPORTANCE TO THE US.
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